

Department of Veterans' Affairs

**For the Years Ended
June 30, 2001, and June 30, 2000**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Charles K. Bridges, CPA
Assistant Director

Katherine J. Anderson, CPA
Audit Manager

Michael S. Edwards, CPA
In-Charge Auditor

Erick Rosa, CPA
Sonja Yarbrough
Staff Auditors

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

Financial/compliance audits of state departments and agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.

For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

February 19, 2002

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Wendell H. Gilbert, Commissioner
Department of Veterans' Affairs
215 Eighth Avenue North
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Veterans' Affairs for the years ended June 30, 2001, and June 30, 2000.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in a finding, which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long, sweeping underline.

John G. Morgan
Comptroller of the Treasury

JGM/mb
02/036



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

January 10, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Veterans' Affairs for the years ended June 30, 2001, and June 30, 2000.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. These standards require that we obtain an understanding of management controls relevant to the audit, and that we design the audit to provide reasonable assurance of the Department of Veterans' Affairs' compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Veterans' Affairs is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed a finding, which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit finding, and we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the department's internal control to the Department of Veterans' Affairs' management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Veterans' Affairs
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT SCOPE

We have audited the Department of Veterans' Affairs for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of payroll and personnel, revenue, expenditures, equipment, and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDING

Policies and Procedures Over Equipment Are Not Being Followed

Serial numbers on equipment do not agree with the property listing, and property tags are not affixed to equipment (page 6).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

Financial/compliance audits of state departments and agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html

For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us

Audit Report
Department of Veterans' Affairs
For the Years Ended June 30, 2001, and June 30, 2000

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	2
PRIOR AUDIT FINDING	2
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	4
Payroll and Personnel	4
Revenue	4
Expenditures	5
Equipment	5
Finding – Policies and procedures over equipment are not being followed	6
Financial Integrity Act	7
OBSERVATIONS AND COMMENTS	7
Title VI of the Civil Rights Act of 1964	7
APPENDIX	8
Allotment Code	8

Department of Veterans' Affairs

For the Years Ended June 30, 2001, and June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Veterans' Affairs. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission statement of the Department of Veterans' Affairs (DVA) is "to serve Tennessee's Veterans and their families with dignity and compassion, and to be their principal advocate in ensuring they receive the care, support, earned benefits, and recognition they earned in service to our nation." In order to fulfill this mission, DVA is organized into Field Services, Claims Services, State Veterans' Cemeteries, and Administrative Services.

The Division of Field Services has the responsibility for referring veterans, their dependents, and their survivors to the services available to them.

The Division of Claims Services assists veterans, dependents, and veterans' survivors in obtaining benefits and services to which they may be entitled under the laws administered by the United States Department of Veterans Affairs and other federal, state, and/or local governmental agencies.

The Field Services and Claims Services divisions have a network of 11 field offices and 95 county offices which collect and disseminate information to veterans, their dependents, and veterans' survivors regarding earned federal and state entitlements and assistance.

The Division of State Veterans' Cemeteries operates cemeteries in Knoxville, Nashville, and Memphis. The cemeteries serve as the final resting place for those who have faithfully served in the

Armed Forces of the United States, their dependents, and eligible members of the Tennessee National Guard.

The Division of Administrative Services is responsible for providing technical and administrative support to all areas of the DVA. The division responds to all requests from members of the General Assembly, the Office of the Governor, and veterans' service organizations.

Subsequent to the audit period, the department established the state Office of Homeland Security. The mission of the Office of Homeland Security is to implement a comprehensive strategy to secure the State of Tennessee from terrorist threats and attacks. The office interacts with the national Office of Homeland Security and coordinates state homeland actions through the Homeland Security Council.

An organization chart of the department is on the following page.

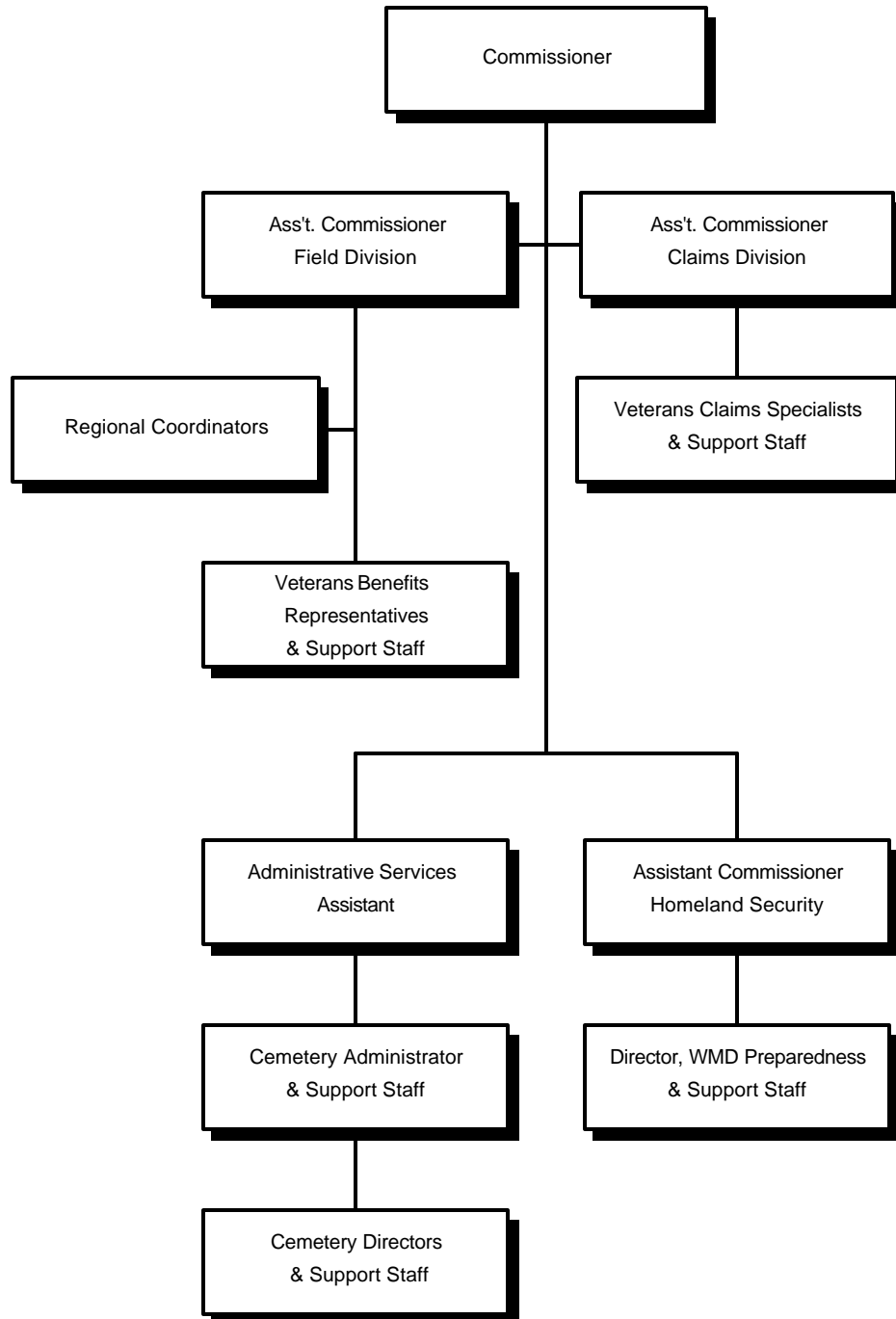
AUDIT SCOPE

We have audited the Department of Veterans' Affairs for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of payroll and personnel, revenue, expenditures, equipment, and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Veterans' Affairs filed its report with the Department of Audit on October 11, 2000. A follow-up on the prior audit finding was conducted as part of the current audit. The current audit disclosed that the department has corrected the previous audit finding concerning timely deposits of revenue.

DEPARTMENT OF VETERANS' AFFAIRS ORGANIZATION CHART



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

PAYROLL AND PERSONNEL

Our objectives in reviewing payroll and personnel controls and procedures at the Department of Veterans' Affairs were to determine whether

- payroll (wages, salaries, and benefits) disbursements were made only for work authorized and performed, and
- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations.

We interviewed key department personnel to gain an understanding of procedures and controls for computing and disbursing payroll. We tested a nonstatistical sample of payroll transactions and personnel files for documentation of the controls and procedures for proper approval of salary rates, leave slips, and time sheets. Based on the testwork performed, we determined that payroll was accurately computed, properly authorized, and adequately supported.

REVENUE

Our objectives in reviewing revenue controls and procedures at the Department of Veterans' Affairs were to determine whether

- revenue transactions were accurate and valid,
- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year,
- physical controls over cash were adequate, and
- records were reconciled with Department of Finance and Administration reports.

We interviewed key department personnel to gain an understanding of procedures and controls for collecting cash and reconciling reports. We tested a nonstatistical sample of revenue transactions to determine whether the receipts were supported and recorded timely. In addition, we observed monthly reconciliations to Department of Finance and Administration reports.

Based on the testwork performed, we determined that revenue transactions were accurate and valid. Receipts were recorded and deposited timely, and physical controls were adequate. In addition, we determined that records were regularly reconciled.

EXPENDITURES

Our objectives in reviewing expenditure controls and procedures at the Department of Veterans' Affairs were to determine whether

- expenditures were for goods or services authorized and received,
- expenditures for goods or services were recorded in the correct object code and amount,
- payments were made in a timely manner,
- auditee records were reconciled with Department of Finance and Administration reports, and
- payments for travel were in accordance with the *Comprehensive Travel Regulations*.

We interviewed key department personnel to gain an understanding of procedures and controls over expenditures. We tested a nonstatistical sample of expenditures for approvals and evidence of receipt. We tested the expenditures for accurate recording, timely payment, and compliance with applicable laws and regulations. In addition, we observed reconciliations to Department of Finance and Administration reports.

As a result of our testwork, we determined that expenditures were recorded correctly and were for goods authorized and received. We determined that payments were made timely and were in compliance with applicable laws and regulations. We also determined that reconciliations are being performed.

EQUIPMENT

Our objectives in reviewing equipment controls and procedures at the Department of Veterans' Affairs were to determine whether

- the information on the property listing was accurate, and
- property and equipment were adequately safeguarded.

We interviewed key department personnel to gain an understanding of procedures and controls for safeguarding and accounting for equipment. Also, we tested a nonstatistical sample of equipment items to determine if the items agreed by description, tag number, and location with the equipment

listing. Based on the testwork performed, we determined that property and equipment are adequately safeguarded; however, the information on the property listing was inaccurate.

Policies and procedures over equipment are not being followed

Finding

The department is not in compliance with policies and procedures concerning equipment. Twelve of 25 equipment items tested (48%) either were missing property tags or had serial numbers that were reported incorrectly in the property records. Five items did not have property tags affixed to the equipment. Four of these items were located at the Nashville Claims Division Office, and one was located at the Chattanooga Field Office. Six items had serial numbers that did not agree with the property listing. Two of the items were located at the Nashville Field Office, two at the Nashville Administrative Office, one at the Nashville Claims Services Division, and one at the Knoxville Field Office. In addition, one item at the Nashville Field Office did not have a property tag affixed to the equipment, and the serial number did not agree with the property listing.

Effective internal control is essential to account for government resources and to ensure that all equipment is properly accounted for. The accurate reporting of serial numbers in the property records and the addition of state tag numbers are necessary for proper identification of state assets. Management has the responsibility to institute and ensure compliance with control procedures that will allow it to account for all equipment purchased.

Recommendation

The Fiscal Officer should ensure that each office complies with policies and procedures over equipment. Employees should be trained and monitored to ensure that property tags are added and property records are correct for each piece of equipment.

Management's Response

We concur. Corrective measures have been taken to strengthen controls to improve the accuracy of equipment records. Employees have been instructed in proper record keeping and procedures for affixing property tags to equipment. Because property tags are not permanently affixed to equipment, the property tag number will be distinctly marked on each piece of equipment. During management's visits to statewide offices, equipment will be reconciled with the property listing recorded in POST (Property of the State of Tennessee).

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter.

Our objective was to determine whether the department's June 30, 2001, and June 30, 2000, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2001, and June 30, 2000, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline, and we determined that the Financial Integrity Act responsibility letters were submitted on time.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by each June 30. The Department of Veterans' Affairs filed its compliance reports and implementation plans on June 29, 2001, and June 27, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

ALLOTMENT CODE

The Department of Veterans' Affairs' allotment code is 323.00.